



USFR MEMORANDUM NO. 224

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: August 23, 2006

SUBJECT: School District Audits (Supersedes USFR Memorandum Nos. 195 and 216)

Single Audits

Districts that expend \$500,000 or more in federal awards are subject to the requirements of the *Single Audit Act Amendments of 1996* and the implementing regulations of the Office of Management and Budget (OMB), including OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are required to obtain an annual single audit.

Districts subject to the *Single Audit Act Amendments of 1996* must submit the audit reporting package and data collection form, as required by OMB Circular No. A-133, within 9 months after fiscal year-end or 30 days after the reports are issued to the district, whichever is sooner. A copy of the data collection form can be found at www.whitehouse.gov/omb/grants/grants_docs.html.

A Uniform System of Financial Records (USFR) Compliance Questionnaire, and management letter if one is issued, must be submitted along with the audit reporting package.

Financial Statement Audits

Arizona Revised Statutes (A.R.S.) §15-914, requires any school district not subject to the *Single Audit Act Amendments of 1996* to comply with the following requirements. If a school district has an adopted expenditure budget of \$2 million or more for the Maintenance and Operation (M&O) Fund, the district shall contract for an annual financial statement audit. If a school district has an adopted expenditure budget of less than \$2 million but more than \$700,000 for the M&O Fund, the district shall contract for a biennial financial statement audit (e.g., an audit of FY 2003-04 and FY 2004-05 performed after the 2nd year).

Districts must submit the annual or biennial financial statement audit reports, a USFR Compliance Questionnaire (biennial audits require the questionnaire to be completed only for the later year), and management letter if one is issued, within 9 months after the applicable fiscal year-end.

Procedural Reviews

Districts having an expenditure budget of less than \$700,000 for the M&O Fund are subject to procedural reviews performed at the discretion of the State of Arizona, Office of the Auditor General. However, a financial statement or single audit may be accepted in lieu of a procedural review if the audit is performed in accordance with *Government Auditing Standards* and the audit firm submits a

completed USFR Compliance Questionnaire. If such an audit is performed, the audit costs cannot be charged to federal programs or used to increase the district's base support level.

Procuring and Contracting for Audit Services

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require audit contracts and the completed audit reports to be approved by the Auditor General. This Memorandum provides general guidance to districts on school district audit requirements. It includes a sample notice of request for proposals and sample request for proposals (RFP) with instructions, and a sample audit contract that can be used to procure audit services. Districts may use the enclosed samples and **should destroy previous versions. A copy of the proposed contract must be submitted to the Auditor General for approval before the contract is signed and any audit work begins.**

If a district wishes to prepare a comprehensive annual financial report (CAFR), the sample RFP and sample contract should be modified accordingly.

A district contracting for an audit must follow the School District Procurement Rules prescribed by the Arizona State Board of Education if the estimated cost of the contracted audit services exceeds \$33,689. These rules require that competitive sealed proposals be solicited through an RFP. The enclosed sample RFP is provided for this purpose.

If the district estimates that the total cost of contracted audit services will be \$33,689 or less, it is not required to follow the School District Procurement Rules. However, the "Guidelines for Competitive Purchasing Below the Dollar Limits Required for Sealed Bids," prescribed by the USFR (pages VI-G-8 and 9) must be followed. These guidelines require written price quotations from at least three audit firms for audit contracts of at least \$15,000, but not more than \$33,689, and oral price quotations from at least three audit firms for audit contracts of at least \$5,000, but less than \$15,000.

It is recommended that districts use an RFP to obtain written or oral price quotations for an audit/audits even if the estimated cost is \$33,689 or less and other requirements of the School District Procurement Rules are not followed. The nature of an audit requires that certain essential information about the district and the necessary elements of the audit requirements be communicated to interested audit firms to enable them to develop a proposed work plan and reasonably estimate the cost of the audit.

Districts may contract with an audit firm for up to 5 years. If a district contracts for a 1-year audit with the option to renew for up to 4 additional years, or contracts for a multi-year audit without an option to renew, the cost for each of the years should be clearly specified in the original contract. For contracts with an option to renew, each year that the renewal option is exercised, a new proposed contract must be submitted to the Auditor General for approval. If the district exercises its option to renew the contract, the contracted amount in each of the subsequent option years must agree with the amounts specified in the original contract.

Districts in a multi-year audit contract that may end up above or below the single audit threshold in any of the remaining years under the contract may submit a contract amendment to the Office of the Auditor General to change the type of audit. Likewise, districts in a multi-year contract for two biennial financial statement audits that adopt an expenditure budget of \$2 million or more in the later years of the contract must submit a **contract amendment** to change the frequency of the audits.

Changes in the scope, character, or complexity of the work may be negotiated if it is mutually agreed by the audit firm and district that changes of this nature are desirable and necessary. Any changes in the scope, character, or complexity of the work must be documented in a **contract amendment**.

All proposed contract amendments must be authorized in writing by the school district and approved by the Auditor General, prior to the performance of work.

USFR Compliance / Audit Firm Compliance

A.R.S. §15-271 requires the Auditor General to inform any district failing to comply with the USFR at a satisfactory level that it has 90 days to achieve compliance with the USFR. To assist the Auditor General in determining whether a district has established and maintained an internal control structure that complies with the USFR at a satisfactory level, the audit firm performing the audit must complete and submit the USFR Compliance Questionnaire and submit management letters the audit firm issues to the district, to the Auditor General. Each district is responsible for providing a copy of the USFR Compliance Questionnaire to the audit firm contracted to perform the district's audit.

The enclosed USFR Compliance Questionnaire dated 8/06 will supersede the questionnaire dated 9/05 that was included in USFR Memorandum No. 216. **Auditors must use the 9/05 questionnaire for FY 2005 audits and use the new, enclosed questionnaire for FY 2006 audits and thereafter.**

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to ensure that completed audits are conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133; and the minimum audit standards prescribed by the Auditor General.

Accordingly, the Auditor General reviews the audit reports and selected audit documentation of audit firms performing school district audits to determine the quality of technical performance and adherence to the cited standards and OMB Circular No. A-133, and to determine whether the audit firms met the minimum audit standards prescribed by the Auditor General for completing the USFR Compliance Questionnaire.

If it is determined that an audit firm has not met the audit standards listed in the preceding paragraph and in the requirements of OMB Circular No. A-133, the Auditor General may disapprove audit contracts, or suspend or debar the audit firm from contracting with school districts for audit services, pursuant to *Arizona Administrative Code* R4-44-101 et seq. The Auditor General will notify districts if and when an audit firm has been suspended or debarred.

Notable Change

A copy of the **USFR Compliance Questionnaire**, and **management letter**, if one is issued, must be submitted to the ADE Audit Resolution Unit along with the audit reporting package.

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the ADE School Finance Operations Unit at (602) 542-5695.

MDH/VGS/gr

Enclosures

Instructions-Request for Proposals

Sample Notice

Sample Request for Proposals

Sample Contract

USFR Compliance Questionnaire